



JOHN NAIMO  
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION  
500 WEST TEMPLE STREET, ROOM 525  
LOS ANGELES, CALIFORNIA 90012-3873  
PHONE: (213) 974-8301 FAX: (213) 626-5427

March 30, 2015

TO: Supervisor Michael D. Antonovich, Mayor  
Supervisor Hilda L. Solis  
Supervisor Mark Ridley-Thomas  
Supervisor Sheila Kuehl  
Supervisor Don Knabe

FROM: John Naimo   
Auditor-Controller

SUBJECT: **MEXICAN AMERICAN OPPORTUNITY FOUNDATION – A  
DEPARTMENT OF PUBLIC SOCIAL SERVICES CALWORKS STAGE  
ONE CHILD CARE SERVICES PROGRAM PROVIDER – CONTRACT  
COMPLIANCE REVIEW**

We completed a contract compliance review of Mexican American Opportunity Foundation (MAOF or Agency), which covered a sample of transactions from Fiscal Years (FY) 2012-13 and 2013-14. The Department of Public Social Services (DPSS) contracts with MAOF, a non-profit organization, to operate the CalWORKs Stage One Child Care Services (Stage One) Program, which helps families access immediate, quality, and affordable child care as they move through their Welfare-to-Work activities.

The purpose of our review was to determine whether MAOF appropriately accounted for and spent Stage One Program funds to provide the services outlined in their County contract. We also evaluated the Agency's accounting records, internal controls, and compliance with their contract and other applicable guidelines.

DPSS paid MAOF a fixed monthly fee of \$12,667, and a negotiated monthly rate of \$160 per participant to fund Stage One Program operating costs. The contract requires the Agency to return or reinvest any unspent revenue. In addition, once a participant chooses a child care provider, MAOF develops a rate agreement, and pays the child care provider directly. DPSS reimburses MAOF for these costs at the rates specified in the contract. The rates vary based on the needs of the participant. DPSS paid MAOF approximately \$12 million during FYs 2012-13 and 2013-14. MAOF provides services to residents of the First, Second, Fourth, and Fifth Supervisorial Districts.

### **Results of Review**

MAOF provided services to eligible participants and child care providers, recorded and deposited DPSS cash receipts timely, and Agency staff had the required qualifications. However, the Agency did not always comply with all of their County contract requirements. Specifically, MAOF:

- Did not appropriately allocate \$5,456 in shared training expenditures and membership fees to the Stage One Program.

*MAOF's attached response indicates that they reallocated all shared training expenditures and membership fees charged to the Stage One Program during the contract term using allowable methods, revised their FY 2012-13 and FY 2013-14 close-out reports, and will provide DPSS with supporting documentation.*

- Did not maintain a complete and accurate listing of fixed assets and equipment purchased with Stage One Program funds.

*MAOF's attached response indicates that they will develop and maintain a complete and accurate listing of fixed assets and equipment purchased with Stage One Program funds.*

Details of our review, along with recommendations for corrective action, are attached.

### **Review of Report**

We discussed our report with MAOF and DPSS in February 2015. MAOF's attached response (Attachment II) indicates agreement with our findings and recommendations. DPSS will work with MAOF to ensure that our recommendations are implemented.

We thank MAOF management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

JN:AB:DC:AA:pn

Attachments

c: Sachi A. Hamai, Interim Chief Executive Officer  
Sheryl L. Spiller, Director, DPSS  
Carlos Viramontes, Board Chair, MAOF  
Martin Castro, Chief Executive Officer/President, MAOF  
Public Information Office  
Audit Committee

**MEXICAN AMERICAN OPPORTUNITY FOUNDATION  
CALWORKS STAGE ONE CHILD CARE SERVICES PROGRAM  
CONTRACT COMPLIANCE REVIEW  
FISCAL YEARS 2012-13 AND 2013-14**

**ELIGIBILITY**

**Objective**

Determine whether Mexican American Opportunity Foundation (MAOF or Agency) provided services to individuals who met the CalWORKs Stage One Child Care Services (Stage One) Program eligibility requirements, and whether the child care providers were eligible to provide Stage One Program services.

**Verification**

We reviewed the case files for 20 (3%) of the 589 participants who received services, and 20 (4%) of the 536 child care providers who provided child care during May 2014 for documentation to confirm the participants' eligibility to receive and the providers' eligibility to provide Stage One Program services.

**Results**

MAOF maintained documentation to support all 20 participants' eligibility to receive and all 20 providers' eligibility to provide Stage One Program services.

**Recommendation**

**None.**

**PROGRAM SERVICES**

**Objective**

Determine whether MAOF provided the services required by their County contract and Stage One Program guidelines, and whether the Program participants and child care providers received the billed services.

**Verification**

We visited MAOF's service site, and reviewed the case files for 20 (3%) of the 589 participants who received services, and 20 (4%) of the 536 child care providers who provided child care during May 2014.

**Results**

The case files for the 20 participants and 20 child care providers reviewed had documentation to support that MAOF provided services in accordance with their County contract.

**Recommendation**

**None.**

**STAFFING QUALIFICATIONS**

**Objective**

Determine whether MAOF's staff had the qualifications required by their County contract.

**Verification**

We reviewed the personnel files for six (19%) of the 31 MAOF staff who worked on the Stage One Program.

**Results**

MAOF's six staff reviewed had the qualifications required by their County contract.

**Recommendation**

**None.**

**CASH/REVENUE**

**Objective**

Determine whether MAOF properly recorded revenue in their financial records, deposited cash receipts into their bank account timely, and if bank account reconciliations were reviewed and approved by Agency management.

**Verification**

We interviewed MAOF's management, and reviewed their financial records and June 2014 bank reconciliations.

**Results**

MAOF properly recorded revenue in their financial records, deposited Department of Public Social Services (DPSS) cash receipts into their bank account timely, and Agency management reviewed and approved monthly bank reconciliations.

**Recommendation**

**None.**

**EXPENDITURES/COST ALLOCATION PLAN****Objective**

Determine whether expenditures charged to the Stage One Program were allowable under their County contract, properly documented, and accurately billed. In addition, determine whether the Agency prepared their Cost Allocation Plan (Plan) in compliance with their County contract, and used the Plan to allocate shared expenditures appropriately.

**Verification**

We interviewed MAOF's personnel, and reviewed their Plan and financial records for 24 non-payroll expenditures, totaling \$82,327, that the Agency charged to the Stage One Program during Fiscal Year (FY) 2013-14.

**Results**

MAOF prepared their Plan in compliance with their County contract. However, the Agency inappropriately charged \$5,456 (7%) of the \$82,327 in non-payroll expenditures reviewed to the Stage One Program. Specifically, MAOF inappropriately:

- Charged \$3,250 (100%) to the Stage One Program for shared training expenditures, instead of allocating the expenditures to all benefitting programs as required.
- Allocated \$2,206 to the Stage One Program for shared membership fees based on contract budgets, instead of using allowable methods based on actual conditions as required.

**Recommendations**

**Mexican American Opportunity Foundation management:**

- 1. Reallocate all shared training expenditures and membership fees charged to the Stage One Program during the contract term, provide the**

**Department of Public Social Services with supporting documentation, and repay any overbilled amounts.**

- 2. Ensure that all expenditures charged to the Stage One Program are allowable, properly documented, and accurately billed.**

### **FIXED ASSETS AND EQUIPMENT**

#### **Objective**

Determine whether MAOF's fixed assets and equipment purchased with Stage One Program funds were used for the Program, and were adequately safeguarded.

#### **Verification**

We interviewed Agency personnel, and reviewed the Agency's fixed assets and equipment inventory lists. We also performed a physical inventory of 13 items purchased with Stage One Program funds to verify the items exist and were being used for the Stage One Program as required.

#### **Results**

MAOF did not maintain a complete and accurate listing of fixed assets and equipment purchased with Stage One Program funds. Specifically, the 13 (100%) items reviewed did not have an acquisition cost, six (46%) items did not have a purchase date, and two (15%) items did not have an asset identification number on record.

#### **Recommendation**

- 3. Mexican American Opportunity Foundation management develop and maintain a complete and accurate listing of fixed assets and equipment purchased with Stage One Program funds.**

### **PAYROLL AND PERSONNEL**

#### **Objective**

Determine whether MAOF charged payroll costs to the Stage One Program appropriately, and maintained personnel files as required.

#### **Verification**

We traced the payroll costs for six employees, totaling \$11,330 for May 2014, to the Agency's payroll records and time reports. We also interviewed staff, and reviewed personnel files for six MAOF Stage One Program staff.

**Results**

MAOF appropriately charged payroll costs to the Stage One Program, and maintained personnel files as required.

**Recommendation**

**None.**

**CLOSE-OUT REVIEW****Objective**

Determine whether MAOF had any unspent revenue for the Stage One Program for FY 2012-13.

**Verification**

We traced the total revenues and expenditures from MAOF's FY 2012-13 close-out report to the Agency's accounting records, and to DPSS' payment records.

**Results**

MAOF's close-out report for FY 2012-13 indicated that they did not have any unspent revenue for FY 2012-13. However, MAOF needs to revise their accounting records based on our recommendations above, provide DPSS with a revised close-out report for FY 2012-13, and work with DPSS to return or reinvest any unspent revenue.

**Recommendation**

- 4. Mexican American Opportunity Foundation management revise their accounting records based on our recommendations above, provide the Department of Public Social Services with a revised close-out report for Fiscal Year 2012-13, and work with the Department of Public Social Services to return or reinvest any unspent revenue.**



March 3, 2015

Mr. John Naimo, Auditor-Controller  
County of Los Angeles  
Department of Auditor-Controller  
Countywide Contract Monitoring Division  
350 S. Figueroa St., 8<sup>th</sup> Floor  
Los Angeles, Ca 90071

**Re: Results of the Contract Compliance Review for CalWORKs Stage One Program**

Dear Mr. Naimo:

In response to your request, we hereby submit our revised formal response to your findings contained in your letter of February 9, 2015, which includes the following corrective action plans and dates of implementation:

**1. Expenditures/Cost Allocation Plan:**

**Results:** MAOF prepared their Plan in compliance with their County contract. However, the Agency inappropriately charged \$5,456 (7%) of the \$82,327 in non-payroll expenditures reviewed to the Stage One Program. Specifically, MAOF inappropriately:

- Charged \$3,250 (100%) to the Stage One Program for shared training expenditures, instead of allocating the expenditures to all benefitting programs as required.
- Allocated \$2,206 to the Stage One Program for shared membership fees based on contract budgets, instead of using allowable methods based on actual conditions as required.

**Recommendations:**

- Reallocate all shared training expenditures and membership fees charged to the Stage One Program during the contract term, provide the Department of Public Social Services with supporting documentation, and repay any overbilled amounts.

**Corrective Action Plan:**

- (1) Out of the \$3,250 total fees paid to the vendor who conducted the seminar, only 32 employees working for Stage 1 should be charged directly to the program. Therefore, the correct amount that should have been allocated to Stage 1 is as follows:

Total Cost of Seminar:	\$3,250
No. of Stage 1 Employees who attended	32
Cost per employee (\$3,250/48 attendees)	<u>\$67.71</u>
Total Cost for Stage 1 Employees	<u>\$2,167</u> (\$67.71 X 32)



Based on the above recalculation, the resulting reduction in training expenditures is \$1,083 in FY 2013-14. In FY 2012-13, all training expenditures were appropriately charged to Stage 1 Program 100%, so there was no issue regarding allocation.

- (2) From July 1, 2012 - December 31, 2014, the membership fees that were originally charged to Stage One Program need to be reallocated based on the proportion to the total of actual operating expenses of certain programs per audited financial statements. The following table summarizes the reallocation of membership dues using this criterion for each of the fiscal years covered by the contract compliance review:

**(2-1): FY 2012-13 (12 months):**

	<u>Closeout Report</u>		Reallocation of Amount Over- Allocated
	<u>Original</u>	<u>Corrected</u>	
Stage 1 Total Expense	\$11,143.76	\$6,183.85	<b>(\$4,959.91)</b>

**(2-2): FY 2013-14 (12 months):**

	<u>Closeout Report</u>		Reallocation of Amount Over- Allocated
	<u>Original</u>	<u>Corrected</u>	
Stage 1 Total Expense	\$8,823.93	\$5,592.64	<b>(\$3,231.29)</b>

- Ensure that all expenditures charged to the Stage One Program are allowable, properly documented, and accurately billed.

**Corrective Action Plan:**

Based on audit findings in the past up to the present time, we are very cognizant of the recommendations that your office has given us, and we will see to it that for every expense allocation made to the Stage 1 Program, there will be sufficient back-up documents that support the computation of charges to the program. Only allowable costs will be charged in accordance with OMB Circular A-122.

**2. Fixed Assets and Equipment**

**Results:** MAOF did not maintain a complete and accurate listing of fixed assets and equipment purchased with Stage One Program funds. Specifically, the 13 (100%) items reviewed did not have an acquisition cost, six (46%) items did not have a purchased date, and two (15%) items did not have an asset identification number on record.

**Recommendation:**

- MAOF management develop and maintain a complete and accurate listing of fixed assets and equipment purchased with Stage One Program funds.

**Corrective Action Plan:**

Effective the current fiscal year, MAOF will conduct an annual physical inventory of fixed assets for the Stage One Program and produce reports that would include the following information:

- Description of Fixed Asset
- Location
- Acquisition Cost
- Date of Purchase
- Asset Identification Number

All fixed assets will be tagged and barcoded for identification purposes.

### **3. Close-Out Review**

**Results:** MAOF's close-out report for FY 2012-13 indicated that they did not have any unspent revenue for FY 2012-13. However, MAOF needs to revise their accounting records based on our recommendations above, provide DPSS with a revised close-out report for FY 2012-13, and work with DPSS to return or reinvest any unspent revenue.

#### **Recommendation:**

MAOF management revise their accounting records based on our recommendations above, provide the Department of Public Social Services with a revised close-out report for Fiscal Year 2012-13, and work with the Department of Public Social Services to return or reinvest any unspent revenue.

#### **Corrective Action Plan:**

Due to the reallocated training and membership expenses as explained in Item # 1 above, we have revised the Closeout Reports for Fiscal Years 2012-13 and 2013-14. We will provide DPSS with the revised closeout reports.

We hope that we have addressed all the findings appropriately. If we missed anything, please let us know at your earliest convenience.

Sincerely,



ORLANDO M. SAYSON  
Chief Financial Officer



JAZMIN CASILLAS  
Stage One Program Director

Cc:

Vicky Santos, MAOF Vice President Operations  
Jazmin Casillas, Stage One Program Director  
Martin Castro, MAOF CEO/President  
Cathy Lugtu-Tse, Financial Manager  
Qi Tzu, Senior Program Accountant